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SENSITIVE, SIPDIS

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TREASURY FOR IA (RACHEL JARPE)

DOE FOR INTERNATIONAL AFFAIRS (ALOCKWOOD)

STATE PASS TO USTR (EISSENSTAT/MELLE)

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SUBJECT: GOM FOCUSES ON MEXICO'S COMPETITIVENESS

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¶1. (SBU) SUMMARY: On June 22, the World Economic Forum (WEF) released "The Mexico Competitiveness Report 2009," which provides a comprehensive overview of the country's current competitiveness and highlights Mexico's strengths and weaknesses. Ranked 60th in the Global Competitiveness Index 2008-2009, Mexico's advantages include its market size, sophisticated business sector, and sound macroeconomic fundamentals, but it also has a number of weaknesses that need to be addressed, such as the quality of institutions, goods and labor markets, education standards, and the potential for innovation. The findings of the Report were discussed at the Mexico Competitiveness Workshop, organized by the WEF and the Secretariat of the Economy. More than 100 key political and business leaders gathered to launch a dialogue in an effort to overcome existing differences and discuss a joint long-term National Competitiveness Agenda to help Mexico achieve long-sought sustained economic growth. While it is encouraging that the Calderon Administration has acknowledged the need to address competitiveness, finding common ground with the private sector and other key interest groups in the development of a National Competitiveness Agenda will be difficult. END SUMMARY.

A LONG-TERM NATIONAL COMPETITIVENESS AGENDA IN THE WORKS

¶2. (U) WEF, in collaboration with Harvard University, recently released "The Mexico Competitiveness Report 2009," which provides an assessment of the country's competitiveness strengths as well as the challenges ahead. On June 22, WEF, together with Mexico's Secretariat of the Economy and Harvard University, presented the results of its study before top business leaders, academia and key government officials. Participants then discussed ways of increasing the country's productivity and competitiveness based on WEF's competitiveness indices and rankings. The WEF's report revealed that Mexico is no longer at a stage of competitiveness based solely on lower costs, but that it has progressed to a stage in which it has to compete in the global market based on productivity and market efficiency. In order to attain a competitive advantage in these areas, and thereby achieve sustained economic growth, Mexico must have a strategy.

HIGH-LEVEL EVENT TO DISCUSS COMPETITIVENESS ISSUES

¶3. (U) Participants in the June 22 event included key cabinet officials and some of the country's most powerful business figures. The discussion was led by Secretary of the Economy Gerardo Ruiz Mateos who was accompanied by Secretary of Finance Agustin Carstens, Secretary of the Interior Fernando Gomez Mont, and Secretary of Education Alonso Lujambio. Other high-level government officials who attended the event included: Under Secretary of Competitiveness and Regulation Felipe Duarte, who will be the operative person to lead the government's efforts; Under Secretary of Foreign Trade Beatriz Leycegui; former Under Secretary of Transportation and currently administrator of the Secretariat of the Interior Manuel Rodriguez; the Head of the Federal Competition Commission Eduardo Perez Motta; the Mexican Stock Exchange's Deputy Director Pedro Zorrilla, and Representatives from the Bank of Mexico and other agencies. Among the business leaders and academia were: Carlos Slim Jr.; Alberto Bailleres from Grupo Bal; Valentin Diez Morodo, Chairman of the Mexican Foreign Trade Council; Armando Paredes, Chairman of the Business Coordinator Council; Miguel Maron, Chairman of the National Chamber of the Manufacturing Industry; Ricardo Gonzalez Sada, Chairman of the Confederation of Mexican Employers; the Mexican Competitiveness Institute's (IMCO) Deputy Director, as well as representatives from the automobile industry.

GOVERNMENT CALLS FOR A COMMON FRONT

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¶4. (U) Economy Secretary Ruiz Mateos urged the different actors to find space for an improved dialogue and closer cooperation in order to help Mexico grow from being the thirteenth largest economy (in terms of real GDP) to the fifth greatest economy in the world. He highlighted the GOM's pledge to achieve sustained economic growth by improving the country's competitiveness and innovation through better protection of intellectual property and more efficient regulation. In order to maximize Mexico's macroeconomic stability, its large network of trade agreements, its enviable "geo-friendly" position, its cheap labor and its market size, Ruiz Mateos said, it has to advance to the designing of value-added and sophisticated manufacturing goods as well as overcome barriers identified in the WEF's report: deficient tertiary education, weak institutions, lack of competition, lack of innovation, corruption and bureaucratic red tape. Ruiz Mateos' call to act was underscored later in a speech by President Calderon, who urged everyone to work on behalf of Mexico. Calderon stressed his fight against narco-trafficking was a way of strengthening the rule of law and providing legal certainty for local and foreign investors. He adamantly dismissed the criticisms of some who prefer that the government should "let sleeping dogs lie." Calderon acknowledged the country's lack of competitiveness and showed a genuine interest in addressing this challenge.

MEXICO HAS LAID THE FOUNDATION

¶5. (U)The Calderon Administration has passed key reforms over the past three years in order to strengthen the country's macroeconomic foundations: energy, tax and pension reforms - the latter represented savings for public finances equivalent to 30 percent of Mexico's GDP at its present value. The government also approved amendments to the Acquisitions and Public Works Law to facilitate public and private investment in

infrastructure, and passed a new Research and Technology Law, which will foster innovation by providing additional resources for research and scholarships. In terms of security and rule of law, the government has approved a reform of the judicial system and has implemented several anti-corruption and security programs, such as Cleaning Mexico, Plataforma Mexico and the National Security Accord. The government has also made strong efforts to make public spending more transparent through the implementation of a result-based federal budget, and has reduced unnecessary foreign trade requirements and tariffs in addition to facilitating trade through the elimination of burdensome customs procedures. The alliance between the government and the teachers' union, although still insufficient according to observers, has attempted to improve and stimulate the quality of teaching in Mexico.

THREE KEY CHALLENGES: EDUCATION, RULE OF LAW AND MARKET EFFICIENCY

¶6. (SBU) Based on the Report's results and led by the recommendations of Harvard researchers Ricardo Hausmann and Lant Pritchett, the attendees broke into three groups led by Secretaries Lujambio, Gomez-Mont and Carstens to discuss three key areas identified as the main competitiveness challenges facing Mexico. These workshops then became brainstorming sessions where the participants proposed various measures the government could take to improve the country's productivity and competitiveness. Businessmen had to be frequently reminded by Harvard's Ricardo Hausmann to look beyond their wish lists of additional subsidies, lower taxes, and other demands on the federal budget; rather, that they should seek collaborative schemes and joint actions to improve competitiveness. The main proposals that resulted from the three groups were:

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--Education: Pass an education reform aimed at stimulating the students' analytical skills rather than memorizing text books; strengthen the linkage between universities and businesses to promote programs that address the companies' employment needs; judge Mexican universities against international standards; adjust Conacyt's (Mexico's National Council of Science and Technology) scholarship programs to ensure that grantees return to Mexico upon completion of their graduate studies; include concepts in the national curriculum related to finance, entrepreneurship and technology in order to prepare future generations to compete in the global community.

--Security and Rule of Law: The government's challenge has been to overhaul and rebuild Mexico's security institutions, as there cannot be economic development without trustworthy institutions. The main goal is to professionalize the federal and local police force and prevent the dissipation of valuable resources and manpower. There are currently 1,500 different police forces which need to regroup and improve their coordination. The Calderon administration supports the creation of a National Police Force to better fight organized crime. In terms of bilateral relations, the Mexican government publicly acknowledged the USG's serious and unprecedented commitment to address the problem of arms and money trafficking. The group agreed that criminal activities have links to the informal economy.

--Market Efficiency: This working group was led by Finance Secretary Agustin Carstens, who expressed his regret over the lack of financing provided by larger

banks to the productive sector. While praising the country's macroeconomic stability and solid financial system, he urged the Mexican Congress to approve additional structural reforms after the July 5 elections; particularly reforms in the areas of labor, taxes and telecommunications. Among the various proposals made by the businessmen to improve market efficiency were: improving the dialogue and coordination between the private sector and the government; taking advantage of Mexico's market size; enhancing the private sector participation in infrastructure projects; addressing the problems facing Mexico's diverse regions and many sectors when developing a national competitiveness agenda; valuing natural resources and including them as well as clean energy in future discussions; improving production chains in particular in the automobile and manufacturing industries; and sharing the vision between maquilas and their headquarters of advancing to high-tech manufacturing in Mexico. Many complained about Mexico's high energy costs, which participants argued serve no other purpose than engendering additional tax revenues for the government.

AUTOMOBILE INDUSTRY VOICED ITS CONCERNs

17. (SBU) The automobile sector, represented by Ford Motor Co., took advantage of the opportunity to voice the industry's concerns about the importation of used cars and the lack of environmental standards for these vehicles. Ford called for the elimination of taxes, the creation of more incentives and the implementation of a "scrappage" program similar to schemes in Brazil and other countries and presently under consideration in the United States. The industry, the Ford representative said, foresees an excellent opportunity to bring production, particularly of auto parts, from the U.S. to Mexico.

COMMENT:

18. (SBU) Mexico has progressed steadily over the past few years and has taken significant steps to achieve

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macroeconomic stability. But despite its solid fundamentals and comparative advantages it has been unable to achieve growth rates sufficient to significantly increase per-capita income and tackle existing social inequities. One of the reasons for this is its lack of productivity and long-term planning to converge with wealthier economies. At a certain point, Mexico must establish the capacity to produce value-added and more sophisticated goods to be able to compete head-to-head with Brazil, China, or India.

19. (SBU) It is encouraging that the Calderon Administration has acknowledged a need to improve Mexico's competitiveness and is willing to take action. However, it must be certain that it has correctly diagnosed the problem and prescribed the correct remedy, so as to avoid wasting time and valuable resources. Therefore, the identifiable indices included in this report are crucial. Also essential is a strong coordinated effort and dialogue between the public and private sectors. Perhaps one of the most significant challenges will be to achieve a common ground in the development of a National Competitiveness Agenda. A change of business culture, in which the private sector allows for the country's well-being in addition to its own interests, will prove necessary. END COMMENT.

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